

Consolidated Financial Statements
(In U.S. dollars)

GALANE GOLD LTD.

For the years ended December 31, 2015 and December 31, 2014



KPMG LLP
Chartered Professional Accountants
Bay Adelaide Centre
Suite 4600
333 Bay Street
Toronto ON
M5H 2S5

Telephone (416) 777-8500
Fax (416) 777-8818
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Galane Gold Ltd.

We have audited the accompanying consolidated financial statements of Galane Gold Ltd., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of earnings (loss) and comprehensive earnings (loss), changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Galane Gold Inc. as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants
April 29, 2016
Toronto, Canada

GALANE GOLD LTD.

Consolidated Statement of Earnings (Loss) and Comprehensive Earnings (Loss)
(In U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

	Note	2015	2014
Mining revenue		\$ 26,229,491	\$ 40,460,334
Mining cost	16	34,448,142	35,975,521
Earnings (loss) from mining operations		(8,218,651)	4,484,813
Expenses:			
Exploration costs		115,725	116,713
Foreign exchange gain		(3,022,958)	(722,271)
Corporate general and administration	16	2,263,241	2,510,928
Financing (income) costs	16	693,185	140,675
Other expenses	16	245,655	562,460
		294,848	2,608,205
Earnings (loss) for the year before taxation		\$ (8,513,499)	\$ 1,876,608
Taxation	14	\$ -	\$ -
Net earnings (loss) and comprehensive earnings (loss) for the year		\$ (8,513,499)	\$ 1,876,608
Attributable to:			
Equity holders of Galane Gold Ltd		\$ (8,692,968)	\$ 1,876,608
Non-controlling interest	14	\$ 179,469	\$ -
Net earnings (loss) and comprehensive earnings (loss) for the year		\$ (8,513,499)	\$ 1,876,608
Basic earnings (loss) per common share	15	\$ (0.16)	\$ 0.04
Fully diluted earnings (loss) per common share	15	\$ (0.16)	\$ 0.03
Weighted average number of common shares – basic	15	54,895,219	52,306,884
Weighted average number of common shares – fully diluted	15	54,895,219	54,584,768

The notes on pages 6 to 39 are an integral part of these consolidated financial statements.

GALANE GOLD LTD.

Consolidated Statement of Changes in Equity
(In U.S. Dollars)

Years ended December 31, 2015 and December 31, 2014

	Notes	Capital Stock		Reserves		Attributable to Galane Shareholders	Non-Controlling Interest	Total
		Number	Amount	Stock based payments	Retained Earnings			
Balance as at December 31, 2013		51,285,622	\$ 35,189,146	\$ 1,345,154	\$(9,943,932)	\$ 26,590,368	\$ -	\$ 26,590,368
Stock-based compensation for the period	15	-	-	346,630	-	346,630	-	346,630
Participation in share purchase plan	15	159,668	45,837	(45,837)	-	-	-	-
NLE acquisition exploration shares	5, 15	1,375,000	157,986	(157,986)	-	-	-	-
Net earnings for the year		-	-	-	1,876,608	1,876,608	-	1,876,608
Balance as at December 31, 2014		52,820,290	35,392,969	1,487,961	(8,067,324)	28,813,606	-	28,813,606
Stock-based compensation for the period	15	-	-	370,890	-	370,890	-	370,890
Participation in share purchase plan	15	159,660	44,482	(44,482)	-	-	-	-
Galaxy acquisition	5, 15	18,334,492	964,465	-	-	964,465	431,342	1,395,807
Net loss for the year		-	-	-	(8,692,968)	(8,692,968)	179,469	(8,513,499)
Balance as at December 31, 2015		71,314,442	36,401,916	1,814,369	(16,760,292)	21,455,993	610,811	22,066,804

The notes on pages 6 to 39 are an integral part of these consolidated financial statements.

GALANE GOLD LTD.

Consolidated Statement of Cash Flows
(In U.S. Dollars)

Years ended December 31, 2015 and December 31, 2014

	Notes	2015	2014
Cash flows from operating activities:			
Net (loss) earnings for the period		\$ (8,513,499)	\$ 1,876,608
Items not involving cash:			
Loss (gain) on disposal of equipment		11,159	432,103
Capitalised critical spares expensed		303,571	109,695
De-recognition of stripping costs	9	3,893,479	-
Depreciation and amortization	8	2,857,197	4,043,481
Stock based compensation	15	370,890	346,630
Accretion	11	322,857	326,463
Asset Retirement Obligation adjustment	11	-	(360,897)
Interest Expense	16	370,328	174,809
Foreign exchange		(3,482,860)	(655,829)
Deferral of Royalties payable	13, 17	1,164,676	2,016,395
Working capital adjustments:			
Change in trade and other receivables		1,128,352	(832,444)
Change in inventories		3,578,786	(119,595)
Change in trade and other payables relating to operating activities		309,639	281,603
Cash flows from operating activities		2,314,575	7,639,022
Cash flows from investing activities:			
Net cash on Galaxy acquisition	5	(147,523)	-
Mining assets acquired	8	(7,328,591)	(11,140,622)
Cash flows used in investing activities		(7,476,114)	(11,140,622)
Cash flow from financing activities:			
Net proceeds from interest bearing loans		-	4,900,000
Interest paid		(311,515)	(308,078)
Repayment of interest bearing loans		(1,999,000)	(2,533,333)
Capital lease obligation paid		(259,878)	(121,502)
Cash flows from (used in) financing activities		(2,570,393)	(1,937,087)
(Decrease) Increase in cash		(7,731,932)	(1,564,513)
Effect of unrealized foreign exchange gain on cash		(34,696)	(21,217)
Cash, at January 1		9,653,807	11,239,537
Cash, at December 31		\$ 1,887,179	\$ 9,653,807

The notes on pages 6 to 39 are an integral part of these consolidated financial statements.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

(In U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

1. Corporate Information

Galane Gold Ltd. (the “Company”) operates through its wholly owned subsidiary, Galane Gold Mines Ltd., which was incorporated under the *Business Corporations Act* (Ontario) on November 15, 2010 and whose principal business activities are the exploration for, development of, and operation of gold mining properties. The Company’s registered and head office is located at Suite 1800, 181 Bay St., Toronto, Ontario, Canada.

2. Basis of preparation:

(a) Statement of compliance

The consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (“IASB”). The consolidated financial statements were approved by the Board of Directors on April 29, 2016.

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for financial instruments which are at fair value. The methods used to measure fair values are discussed in Note 3.

(c) Basis of consolidation

The significant subsidiaries of the Company are accounted for as follows:

	Country of Incorporation	% equity interest December 31, 2015	Accounting Method
Galane Gold Mines Ltd.	Canada	100%	Consolidation
Mupane Gold Mines Limited	Mauritius	100%	Consolidation
Gallery Gold Pty Ltd.	Australia	100%	Consolidation
Mupane Gold Mining (Pty) Ltd.	Botswana	100%	Consolidation
The Northern Lights Exploration Company (Pty) Ltd.	Botswana	100%	Consolidation
Galaxy Gold Mining Ltd.	South Africa	74%	Consolidation

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial information of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

2. Basis of preparation (continued):

(c) Basis of consolidation (continued)

All balances, income and expenses and unrealized gains and losses resulting from transactions amongst subsidiaries of the Company are eliminated on consolidation.

The Company's other subsidiaries are Galane Gold Botswana (Pty) Ltd. (Botswana) (100% owned), Galaxy Gold Reefs (PTY) Ltd (74% owned) and Shashe Mines (Pty) Ltd. (Botswana) (85% owned).

(d) Functional and presentation currency

The consolidated financial statements are presented in U.S. dollars, which is the functional currency of the Company and each of its subsidiaries. All amounts are in U.S. dollars, except where otherwise indicated.

(e) Significant accounting judgements, estimates and assumptions:

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

(i) Mineral resources:

Mineral resources have been estimated by qualified personnel of the Company in accordance with definitions and guidelines adopted by The Canadian Institute of Mining, Metallurgy and Petroleum ("CIM Standards on Mineral Resources and Reserves"). A mineral reserve is a technical estimate of the amount of metal or mineral that can be economically extracted from a mineral deposit. Mineral reserve and resource estimates include numerous uncertainties and depend heavily on geological interpretations and statistical inferences drawn from drilling and other data. Reserve and resource statements also require an estimate of the future price for the commodity in question and an estimate of the future costs of operations. The mineral reserve and resource estimates are subject to uncertainty and may be inaccurate. Results from drilling, testing and production, as well as material changes in metal prices subsequent to the date of an estimate may justify a revision of such estimates.

Actual production costs may vary from estimated production costs due to many factors like changing costs of inputs such as labour, energy and consumables as well as varying royalty expenses related to the price of gold.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

2. Basis of preparation (continued):

(i) Mineral resources (continued):

A number of accounting estimates, as described in the following relevant accounting policy notes, are impacted by the reserve and resource estimates:

- Note 3(b) – Business combinations and goodwill
- Note 3(f) – Depreciation rates
- Note 3(h)(ii) – Impairment of non-financial assets
- Note 3(i) – Restoration and rehabilitation provision
- Note 3(ii) – Deferred stripping

(ii) Definition of a business:

Based on management's judgment, the acquisition of Galaxy (refer to note 5) did meet the definition of a business as the primary assets were a measured and indicated resource and mining infrastructure. Consequently, the transaction has been recorded as the acquisition of a business.

(iii) Determination of deferred income tax including uncertain tax positions:

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it is probable that future taxable profit will be available to allow the deferred tax asset to be recovered. There is no certainty that income tax rates will be consistent with current estimates. For more information, refer to note 14.

(iv) Share-based payments and warrants:

Equity-settled share-based payments are measured at fair value at the grant date; warrants denominated in a foreign currency were measured at fair value through profit or loss. The fair value of options and warrants is determined using a Black-Scholes option pricing model based on assumptions including volatility, expected life, expected dividends and risk-free interest rate.

A change in any or a combination of the key assumptions used to determine the fair value of share-based payments at grant date or warrants denominated in a foreign currency at the reporting date could have a material impact on their carrying values and the amount recorded in earnings.

(v) Restoration and rehabilitation provision:

Amounts recorded for restoration and rehabilitation provision require management to estimate the future costs the Company will incur to complete the reclamation and remediation work required to comply with applicable laws and regulations as well as the timing of the reclamation activities and estimated discount rate. Future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. The provision represents management's best estimate of the present value of the future reclamation and remediation costs.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

3. Significant accounting policies:

(a) Foreign currency translation

The consolidated financial statements are presented in U.S. dollars, which is the Company's and each of its subsidiaries' functional currency. Transactions in foreign currencies are translated at the rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange on the date of the consolidated statement of financial position. All differences are taken to the consolidated statement of earnings (loss) and comprehensive earnings (loss). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

(b) Business combinations and goodwill

On the acquisition of a subsidiary, the purchase method of accounting is applied whereby the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair value at the date of acquisition.

The cost of the business combination is the aggregate of the fair values at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer in exchange for control of the acquiree.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the fair value of the acquiree's identifiable net assets.

If the fair value attributable to the Company's share of the identifiable net assets exceeds the fair value of the consideration, the Company reassesses whether it has correctly identified and measured the assets acquired and liabilities assumed and recognizes any additional assets or liabilities that are identified in that review. If that excess remains after reassessment, the Company recognizes the resulting gain in the consolidated statement of earnings (loss) and comprehensive earnings (loss) on the acquisition date.

Professional fees and other costs directly related to business combinations are expensed in the year they are incurred.

If a transaction does not meet the definition of a business under IFRS, the transaction is recorded as an asset acquisition. Accordingly, the net identifiable assets acquired and liabilities assumed are measured at the fair value of the consideration paid, based on their relative fair values at the acquisition date. Acquisition-related costs are included in the consideration paid and capitalized.

Based on management's judgment, the acquisition of Galaxy Gold Mining Ltd ("Galaxy") (refer to note 5) met the definition of a business as the primary assets were a measured and indicated resource and mining infrastructure. Consequently, the transaction has been recorded as the acquisition of a business.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

3. Significant accounting policies (continued):

(c) Financial instruments

The Company recognizes financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments. A regular way purchase of financial assets is recognized using the trade date accounting. Financial liabilities are not recognized unless one of the parties has a legal or constructive obligation or the contract is a derivative contract.

A financial asset (in whole or in part) is derecognized either when the Company has transferred substantially all the risks and rewards of ownership of the financial asset or when cash flows expire.

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Financial assets and liabilities are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Non-derivative financial instruments

Non-derivative financial instruments comprise cash, trade and other receivables, accounts payable and accrued liabilities, interest bearing loans and borrowings and warrants denominated in foreign currency. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are classified and measured as described below.

Financial instruments at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is acquired principally for the purpose of selling in the short-term or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management of investment strategy.

Cash and warrants denominated in foreign currency are designated as fair value through profit or loss. Any unrealized gains or losses related to changes in the fair value are included in interest income, and financing costs in the consolidated statement of earnings (loss) and comprehensive earnings (loss).

Other financial instruments

Loans and receivables, which have fixed and determinable payments that are not specified in an open market, are recognized initially at fair value plus any attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method, less any impairment losses. These include trade and other receivables.

Other financial liabilities are recognized initially at fair value plus any attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method. These include interest bearing loans and borrowings and accounts payable and accrued liabilities.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

3. Significant accounting policies (continued):

(d) Inventories

Work in progress inventories are valued at the lower of cost or net realizable value. Production costs include the cost of materials, labour, mine site production overheads and depreciation to the applicable stage of processing.

Ore stockpiles are valued at the lower of cost and net realizable value. The cost of ore stockpiles is increased based on the related current mining cost per tonne of the period, and decreases in ore stockpiles are recorded in mining costs using the weighted average cost per tonne. Ore stockpiles are segregated between current and long-term inventories on the consolidated statement of financial position based on when they are expected to be processed.

Consumables are valued at the lower of average purchase cost and net realizable value. Provisions for redundant and slow-moving items are made by reference to specific items of stock. Spare parts, stand-by and servicing equipment held are generally classified as inventories. However, if major spare parts (critical spares) and stand-by equipment (insurance spares) are expected to be used for more than one period or can only be used in connection with a particular capital asset, then they are classified as a component of mining assets.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs of selling the final product.

(e) Mining properties and plant and equipment

Mining properties are measured at cost less accumulated depreciation and accumulated impairment charges.

The initial cost of an asset comprises its purchase or construction cost, any costs directly attributable to bringing the asset to a working condition for its intended use, the initial estimate of the rehabilitation obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The cost of self-constructed assets includes the cost of materials and direct labour.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an asset are determined by comparing the proceeds from disposal with the carrying amount of the asset.

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in earnings as incurred.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

3. Significant accounting policies (continued):

(e) Mining properties (continued)

Mining properties presented on the consolidated statement of financial position represent the capitalized expenditures related to:

- Mine development; and
- Stripping costs

(i) Mine development

Upon determination of technical feasibility and commercial viability of a mining property, all subsequent expenditure is capitalized and costs are not amortized until the projects are brought into production. Mine development costs include expenditures to develop new ore bodies, define further mineralization in existing ore bodies, construct and install or complete infrastructure facilities. Mine development costs are net of proceeds from the sale of ore extracted during the development phase.

Where funds have been borrowed, either to specifically finance a project or for general borrowings during the period of construction, the amount of interest capitalized represents the actual borrowing costs incurred, in the case of specific finance arrangements, or an allocation of interest on general borrowings.

(ii) Stripping costs

After commencement of production, the Company recognizes mining costs associated with stripping activities in an open pit mine as variable production costs. Such costs are included in the cost of inventory unless the stripping activity can be determined to have future economic benefits that will flow to the entity, in which case the costs are capitalized.

Capitalized stripping costs represent further development of the mine that requires a phase of overburden removal activity to access ore which will be mined in future periods.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

3. Significant accounting policies (continued):

(f) Depreciation and amortization

Mining properties are amortized when the assets are ready for their intended use using the units-of-production method over the shorter of the estimated economic life of the asset or the mining operation.

The reserve and resource estimate is the prime determinant of the life of the mine. In estimating the life of mine, the nature of the ore body and the method of mining the ore body are taken into account. In general, an ore body where the mineralization is reasonably well defined is amortized over its proven and probable mineral reserves. Non reserve material may be included in depreciation calculations in limited circumstances where there is a high degree of confidence in its economic extraction. Changes in the estimate of mineral reserves and resources will result in changes to the depreciation and will be accounted for on a prospective basis over the remaining life of the operation.

The basis of amortization for capitalized stripping is the ore to be extracted as a result of the specific stripping activity and is determined on a units-of-production basis.

Changes in a mine's life and design will usually result in changes to the basis of amortization. These changes are accounted for prospectively.

Residual values, useful lives and amortization methods are reviewed at least annually and adjusted if appropriate. Changes are accounted for prospectively. When no further future economic benefits are expected from an asset it will be de-recognised. Any gain or loss on de-recognition of the asset is included in the consolidated statement of earnings (loss) and comprehensive earnings (loss) in the year the asset is de-recognised.

(g) Mineral exploration and evaluation costs

Costs incurred to acquire new rights to explore and costs to evaluate the technical feasibility and commercial viability of an ore body are capitalised. The Company considers evaluation costs to have commenced once it has determined it is likely the Company will carry out economic mining activities for that ore body in the future. This assessment requires significant management judgement. The Company reviews each exploration and evaluation asset as costs are incurred to ensure conditions for capitalisation still exist. Capitalised amounts are then assessed for indications of impairment at the end of each reporting period.

Mineral exploration costs are charged to earnings in the period in which they are incurred.

When the technical feasibility and commercial viability of the ore body is determined, any capitalised costs are transferred to mineral properties and the balance is tested for impairment.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

3. Significant accounting policies (continued):

(h) Impairment

(i) Financial assets

Financial assets not carried at fair value through profit or loss are tested for impairment on an individual basis at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have indicated that the estimated future cash flows of the asset are less than its carrying value, and can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the amount of the reversal is recorded in the statement of earnings (loss) and comprehensive earnings (loss). The amount of the reversal cannot result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

(ii) Non-financial assets

If a property is abandoned or deemed economically unfeasible, the related project balances are derecognised.

The Company conducts annual impairment assessments of the values of long-lived assets, including mining assets and exploration and evaluation assets. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the asset's fair value less costs of disposal ("FVLCD") and its value in use ("VIU"). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the individual assets are grouped together into cash generating units ("CGUs") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other groups of assets. The Company considers that it has two CGUs.

If the carrying amount of the asset or CGU exceeds its recoverable amount, an impairment loss is recorded so as to reduce the carrying amount to its recoverable amount. A previously recognized impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount for the asset since the impairment loss was recognized. If this is the case, the carrying amount is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized in prior years.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

3. Significant accounting policies (continued):

(h) Impairment (continued)

(ii) Non-financial assets (continued)

The recoverable amount is determined based on the present value of estimated future cash flows from each long-lived asset, which are calculated based on numerous assumptions such as proven and probable reserves, resources when appropriate, estimates of discount rates, estimated future metal prices, operating costs, capital and site restoration expenses and estimated future foreign exchange and inflation rates, as defined under IFRS for FVLCD and VIU. Management's assumptions and estimates of future cash flows are subject to risks and uncertainties, particularly when market conditions such as the price of gold, inflation, currency values and interest rates are volatile, and may be partially or totally outside of the Company's control. Therefore, it is reasonably possible that changes could occur with evolving economic conditions, which may affect the recoverability of the Company's long-lived assets. If the Company fails to achieve its valuation assumptions or if any of its long-lived assets experiences a decline in its fair value, then this may result in an impairment charge, which would reduce the Company's earnings.

(i) Restoration and rehabilitation provision

The Company records the present value of estimated costs of legal and constructive obligations required to restore and rehabilitate locations in the period in which the obligation is incurred with a corresponding increase in the carrying value of the related mining asset. The obligation is generally considered to have been incurred when mine assets are constructed or the environment is disturbed. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The discounted liability is adjusted at the end of each period to reflect the passage of time, based on the discount rates that reflect current market assessments and the risks specific to the liability, and changes in the estimated future cash flows underlying the obligation. The liability is denominated in a foreign currency and is considered to be a monetary obligation. It is re-valued at the end of the reporting period at the spot exchange rate on the reporting date. The resultant translation gain or loss is recognised in the consolidated statement of earnings and comprehensive earnings.

These estimates depend on labour costs, known environmental impacts, the effectiveness of remedial and restoration measures, inflation rates and risk-free interest rates specific to each liability. The Company also estimates the timing of the outlays, which is subject to change depending on continued operation or newly discovered reserves. The periodic unwinding of the discount is recognized in earnings as a finance cost. Additional disturbances or changes in restoration costs will be recognized as changes to the corresponding assets and asset retirement obligation when they occur. Environmental and on-going site clean-up costs at operating mines, as well as changes to estimated costs for closed sites, are charged to earnings in the period during which they occur.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

3. Significant accounting policies (continued):

(j) Income taxes

(i) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the date of the consolidated statement of financial position.

Current income tax assets and current income tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current income taxes relating to items recognized directly in equity are recognized directly in equity and not in the consolidated statement of earnings (loss) and comprehensive earnings (loss).

(ii) Deferred income tax

Deferred income tax is provided using the asset and liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled by the parent, investor, or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- when results from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

3. Significant accounting policies (continued):

(j) Income taxes (continued)

(ii) Deferred income tax (continued)

The carrying amount of deferred income tax assets is reviewed at each date of the consolidated statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognized deferred income tax assets are reassessed at each date of the consolidated statement of financial position and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

A translation gain or loss will arise where the local tax currency is not the same as the functional currency. A deferred tax is recognized on the difference between the book value of the non-monetary assets and the underlying tax basis, translated to the functional currency using the current foreign exchange rate.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is expected to be realized or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the consolidated statement of financial position.

Deferred income taxes relating to items recognized directly in equity are recognized directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

There is no certainty that income tax rates will be consistent with current estimates. Changes in tax rates increase the volatility of the Company's earnings.

(k) Revenue recognition

Revenues include sales of gold. Revenues from the sale of gold are recognized when the significant risks and rewards of ownership have transferred to the purchaser and the amount of revenue can be measured reliably.

(l) Share-based payments

The Company has a stock option plan that is described in note 15(c), an employee share purchase plan described in note 15(b) contingent shares described in note 15(e) and deferred share unit plan described in note 15(f). Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to share-based payments reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital. Charges for options that are forfeited before vesting are reversed from share-based payment reserve.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

3. Significant accounting policies (continued):

(m) Earnings (loss) per share

Basic earnings (loss) per share are calculated by dividing net earnings by the weighted average number of common shares outstanding during the year. The calculation of diluted earnings (loss) per share uses the treasury stock method. The weighted average number of common shares outstanding for the calculation of diluted earnings (loss) per share assumes that the proceeds to be received on the exercise of dilutive stock options or warrants are used to repurchase common shares at their average market price during the period. The computation of diluted earnings (loss) per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings (loss) per share.

4. New and amended standards adopted by the company and future accounting policies

The following accounting standards are to be adopted in the future:

(a) IFRS 9 – Financial instruments

The IASB has issued IFRS 9, Financial Instruments, which is a four-part project proposing to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 is effective for annual periods beginning or after January 1, 2018, with early adoption permitted. The Company will evaluate the impact of the change to its financial statements based on the characteristics on its financial instruments at the time of adoption.

(b) IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers (IFRS 15). The standard replaces IAS 11 “Construction Contracts”, IAS 18 “Revenue”, IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfer of Assets From Customers” and SIC 31 “Revenue – Barter Transactions Involving Advertising Services”. IFRS 15 is effective for periods beginning on or after January 1, 2018, permits early adoption, and is to be applied retrospectively. IFRS 15 clarifies the principles for recognizing revenue from contracts with customers. The Company is in the process of evaluating the requirements of the new standard.

(c) IAS 16 – Property, Plant and Equipment and IAS 38

In May 2014, the IASB issued amendments to IAS 16 Property, plant and equipment and IAS 38 Intangible assets. The amendments are effective for annual periods beginning on or after January 1, 2016 and are to be applied prospectively. The amendments clarify the factors in assessing the technical or commercial obsolescence and the resulting depreciation period of an asset and state that a depreciation method based on revenue is not appropriate. The Company is in the process of evaluating the requirements of the new standard.

(d) IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 “Leases” (“IFRS 16”). This standard is effective for annual periods beginning on or after January 1, 2019, and permits early adoption, provided IFRS 15, has been applied, or is applied at the same date as IFRS 16. IFRS 16 requires lessees to recognize assets and liabilities for most leases. The Company is in the process of determining the impact of IFRS 16 on its consolidated financial statements.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

5. Acquisitions:

Galaxy Acquisition:

On November 20, 2015, the Company closed the acquisition of a majority of the issued and outstanding ordinary shares (each, a “Galaxy Share”) of Galaxy, a gold mining company with operations in the Mpumalanga Province of South Africa. The Company is required to make an offer to all other shareholders of Galaxy to acquire the remaining Galaxy Shares on economically equivalent terms (the “Mandatory Offer”).

The Company entered into share purchase agreements with certain majority shareholders of Galaxy pursuant to which a wholly-owned subsidiary of the Company agreed to acquire approximately 74% of the issued and outstanding Galaxy Shares in exchange for 18,334,492 common shares with an aggregate value of approximately Cdn.\$1.1 million, based on a deemed price of Cdn.\$0.07 per common share, and common share purchase warrants (“Warrants”) exercisable to acquire an aggregate of up to 4,076,598 common shares for a period of two years at Cdn.\$0.175 per common share. The Company had advanced \$149,853 to Galaxy before the acquisition to fund working capital upon acquisition this amount has been treated as part of the acquisition cost.

The preliminary allocation of the purchase price to assets and liabilities acquired is provided below. Final valuations of assets and liabilities are not yet complete due to the timing of the acquisition and the inherent complexity associated with the valuations. The preliminary allocation is subject to adjustment with the final allocation to be completed in 2016.

Mining properties	\$ 12,526,313
Inventory	59,504
Other current assets	250,300
Cash	2,329
Trade and other payables	(3,309,382)
Interest bearing loans	(6,330,133)
Restoration and rehabilitation provision	(1,539,922)
Net assets	\$ 1,659,009
Consideration:	
Cash consideration	\$ 149,853
Share and warrant consideration	
• 18,332,492 common shares	964,465
• 4,076,598 warrants to purchase common shares	113,349
Non-controlling interest ⁽¹⁾	431,342
Acquisition of subsidiary	\$ 1,659,009

⁽¹⁾ The Non-controlling interest has been measured at fair value at the date of the acquisition.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

5. Acquisitions (continued):

Galaxy Acquisition (continued....):

Galaxy contributed no revenue and a pre-tax income of \$690,265 (largely due to unrealized foreign exchange gains) for the period from November 20, 2015 to December 31, 2015. On a pro-forma basis, if the Galaxy Acquisition had occurred at January 1, 2015, Galaxy would not have contributed to the consolidated revenue, an operating profit of \$234,565 to the consolidated operating loss of the Company. This pro-forma consolidated financial statement information is not intended to be indicative of the results that actually would have occurred, or the results expected in future periods, had the events reflected herein occurred on the dates indicated, and is subject to change as a result of finalization of the valuation of the net assets acquired. Any potential synergies that may be realized and integration costs that may be incurred have been excluded from this pro forma financial information.

Acquisition costs:

The Company incurred \$192,914 of professional costs that were directly attributable to the Galaxy Acquisition which are included within corporate general and administration on the statement of earnings (loss) and comprehensive earnings (loss).

6. Trade receivables and other current assets

	December 31, 2015	December 31, 2014
Other receivables ⁽¹⁾	\$ 4,615	\$ 995,472
Trade receivables	282,162	90,020
Taxes recoverable	220,566	286,801
Prepaid expenses	352,111	465,237
	<u>\$ 859,454</u>	<u>\$ 1,837,530</u>

⁽¹⁾ Included in other receivables as at December 31, 2014 is \$980,156 in relation to an agreed insurance settlement due for the SAG mill failure which was received during 2015.

7. Inventories

	December 31, 2015	December 31, 2014
Gold in process	\$ 1,128,858	\$ 871,747
Supplies	2,782,271	3,865,293
Ore Stockpiles	4,818,576	1,600,000
	<u>\$ 8,729,705</u>	<u>\$ 6,337,040</u>

During 2015 an amount of \$5,911,946 was reclassified from long term assets into inventories.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

8. Mining assets

The continuity of mining assets for the years ended December 31, 2015 and December 31, 2014 is as follows:

	Construction in Progress	Mining and Exploration Properties	Plant and Equipment	Total
Cost at December 31, 2014	\$ 150,235	\$ 59,579,355	\$ 5,229,681	\$ 64,959,271
Additions:				
Additions in the period	604,885	6,379,044	879,662	7,863,591
Galaxy Acquisition	-	12,526,313	-	12,526,313
Transfers in the period	(557,941)	40,055	517,886	-
Disposals in the period	-	-	(470,005)	(470,005)
Cost at December 31, 2015	\$ 197,179	\$ 78,524,767	\$ 6,157,224	\$ 84,879,170
Accumulated depreciation and amortization at December 31, 2014	\$ -	\$ (37,984,938)	\$ (3,494,331)	\$ (41,479,269)
Amortization charge for the period	-	(2,449,525)	(407,672)	(2,857,197)
De-recognition of stripping costs (Note 9)	-	(3,893,479)	-	(3,893,479)
Disposals in the period	-	-	155,274	155,274
Accumulated depreciation and amortization at December 31, 2015	\$ -	\$ (44,327,942)	\$ (3,746,729)	\$ (48,074,671)
Net book value, December 31, 2015	\$ 197,179	\$ 34,196,825	\$ 2,410,495	\$ 36,804,499

Included in Plant and Equipment net book value is \$101,965 (2014 - \$266,769) in relation to leased motor vehicles (Note 13).

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

8. Mining assets (continued):

	Construction in Progress	Mining and Exploration Properties	Plant and Equipment	Total
Cost at December 31, 2013	\$ 264,153	\$ 49,573,348	\$ 5,693,273	\$ 55,530,774
Additions:				
Additions in the period	4,707,783	6,189,122	243,717	11,140,622
Transfers in the period	(4,821,701)	3,816,885	1,004,816	-
Disposals in the period	-	-	(1,712,125)	(1,712,125)
Cost at December 31, 2014	\$ 150,235	\$ 59,579,355	\$ 5,229,681	\$ 64,959,271
Accumulated depreciation and amortization at December 31, 2013	\$ -	\$ (34,778,355)	\$ (3,827,760)	\$ (38,606,115)
Amortization charge for the period	-	(3,206,583)	(836,898)	(4,043,481)
Disposals in the period	-	-	1,170,327	1,170,327
Accumulated depreciation and amortization at December 31, 2014	\$ -	\$ (37,984,938)	\$ (3,494,331)	\$ (41,479,269)
Net book value, December 31, 2014	\$ 150,235	\$ 21,594,417	\$ 1,735,350	\$ 23,480,002

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

9. De-recognition of stripping costs

The Company recorded a de-recognition of stripping costs within mining costs in the consolidated statement of earnings (loss) in 2015. No de-recognition cost was recorded in 2014.

	December 31, 2015	December 31, 2014
Mining and Exploration Properties	\$ 3,893,479	\$ -
	\$ 3,893,479	\$ -

During the fourth quarter of 2015 the Company concluded that future mining operations at its Golden Eagle resource would use underground mining methods. The Company had historically operated Golden Eagle as an open pit and had recorded an asset of \$3,893,479 in relation to stripping costs. As the Company no longer intends to operate an open pit at Golden Eagle it made the decision that the change in mining method required a de-recognition of the stripping costs. As a result, the Company recorded a charge of \$3,893,479 within mining costs in the consolidated statement of earnings (loss).

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

10. Financial instruments

The following table presents the carrying and estimated fair values of the Company's financial instruments.

Financial Assets	Carrying and Fair value	
	December 31, 2015	December 31, 2014
Cash (level 1 of fair value hierarchy ⁽⁴⁾)	\$ 1,887,179	\$ 9,653,807
Trade and other receivables ⁽¹⁾	859,454	1,837,530
	<u>\$ 2,746,633</u>	<u>11,491,337</u>
Financial Liabilities		
Accounts payable and accrued liabilities ⁽²⁾	\$ 8,538,785	\$ 6,635,834
Warrants denominated in a foreign currency (level 2 of fair value hierarchy ⁽⁴⁾)	113,349	-
Loans and borrowings ⁽³⁾	13,905,171	8,687,634
	<u>\$ 22,557,305</u>	<u>15,323,468</u>

(1) The fair value of trade and other receivables approximates the carrying amount given the short maturity period. Refer to the credit risk section below.

(2) The fair value of accounts payable and accrued liabilities approximates the carrying amount given the short maturity period. Refer to the liquidity risk section below.

(3) The fair value of loans and borrowings approximates the carrying amount given the short maturity period, and the fair market value rate of interest that it carries.

(4) The level of the fair value hierarchy are defined as follows:

1. Level 1- there are quoted prices in active markets for identical assets or liabilities.
2. Level 2- there are inputs other than quoted prices that are either directly or indirectly observable for the asset or liability.
3. Level 3- these are inputs that are not based on observable market data.

(a) Financial risk management objectives and policies

The Company manages capital and its exposure to financial risks by ensuring it has sufficient financial capacity to support its operations, current mine development plans and long-term growth strategy. The Company is subject to various financial risks that could have a significant impact on profitability and financial conditions. These risks include liquidity risk, credit risk and financial market conditions relating to interest rates, gold price, and currency rates.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

10. Financial instruments (continued)

The following discussion includes a sensitivity analysis that is intended to illustrate the sensitivity to changes in market variables on the Company's financial instruments and show the impact on profit or loss and equity, where applicable. Financial instruments affected by market risk include cash, trade and other receivables, accounts payable and accrued liabilities and borrowings.

(b) Risks

Management reviews and approves policies for managing each of the risks which are summarised below:

i. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

As at December 31, 2015, the Company's cash balance was \$1,887,179 (2014 - \$9,653,807), and it had a working capital deficit of \$2,772,052 (2014 - working capital of \$6,525,127). To address the working capital deficit, subsequent to year end the Company has converted \$3,931,821 of short term debt into long term debentures (Note 20 - Subsequent events).

The Company has a treasury policy to assist in managing its liquidity risk, which requires management to:

- monitor cash balances;
- perform short to medium-term cash flow forecasting, as well as medium and long-term forecasting incorporating relevant budget information; and
- consider the need for expanding treasury activity if and when appropriate (including but not limited to hedging and derivatives).

ii. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk is associated with cash, trade and other receivables.

The Company holds cash in credit worthy financial institutions and does not hold any asset-backed commercial paper.

The credit risk related to gold trade receivable is considered minimal as gold is sold to creditworthy major banks and settled promptly, usually within the following month. At December 31, 2015, there was \$41,433 outstanding (2014 - \$90,020) included in trade and other receivables relating to gold production.

The credit risk related to receivables from government related to taxes, mineral rights and exploration tax credits, included in trade and other receivables, relates to not receiving amounts claimed due to government audits or other factors. As a result, the full balance recorded may not be ultimately realized. Management currently does not expect the amount to be ultimately realized to be materially different from that currently recorded.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

10. Financial instruments (continued)

(b) Risks (continued)

iii. Foreign currency risk

The Company is exposed to currency risk through transactions denominated in currencies other than the U.S. dollar. The risk is mainly due to transactions incurred in South African Rand and Botswana Pula, along with the Canadian dollar. Net assets (liabilities) denominated in currencies other than US Dollar are summarised as follows:

US Dollars	December 31, 2015	December 31, 2014
South African Rand	(4,656,447)	(506,038)
Botswana Pula	(5,301,334)	(10,351,469)
Canadian Dollar	(1,001,837)	(701,012)
	(10,959,168)	(11,558,519)

A 10% strengthening of the U.S. dollar against these foreign currencies at year-end would have resulted in an increase in the Company's earnings for the year of \$996,329 (2014 – \$1,050,774). This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10% weakening of the U.S. dollar against these currencies at year-end would have resulted in a decrease in the Company's earnings for the year of \$1,217,735 (2014 – \$1,284,280). This analysis assumes that all other variables, in particular interest rates, remain constant.

(c) Capital management

The Company's objectives when managing capital are:

- to ensure the Company has sufficient financial capacity to support its operations, current mine development plans and the long-term growth strategy;
- to provide a superior return to its shareholders; and
- to protect the Company's value with respect to markets and risk fluctuations.

The Company's capital structure reflects the requirements of a company focused on growth in a capital intensive industry that experiences lengthy development lead times as well as risks associated with capital costs and timing of project completion due to factors that are beyond the Company's control, including the availability of resources, the issuance of necessary permits, costs of various inputs and the volatility of the gold price.

The Company's capital is as follows:

	December 31, 2015	December 31, 2014
Cash	\$1,887,179	\$9,653,807
Interest-bearing loans and borrowings	\$13,905,171	\$8,687,634
Shareholders' equity	\$21,455,993	\$28,813,606
	\$35,361,164	\$37,501,240

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

10. Financial instruments (continued)

(c) Capital management (continued)

The adequacy of the Company's capital structure is assessed on an ongoing basis and adjusted as necessary after taking into consideration the Company's strategy, the forward gold prices, the mining industry, economic conditions and the associated risks. In order to maintain or adjust its capital structure, the Company may adjust its capital spending, issue new shares, or arrange for a debt facility.

There have been no changes in the Company's capital management strategy during the period.

11. Restoration and rehabilitation provision

	Restoration and rehabilitation provision	
January 1, 2014	\$	3,117,685
Revaluation		(360,897)
Accretion during the period		326,463
At December 31, 2014		3,083,251
Galaxy provision		1,539,922
Revaluation		(1,289,302)
Accretion during the period		322,857
At December 31, 2015	\$	3,656,728

The Company makes full provision for the future cost of rehabilitating mine sites and related production facilities on a discounted basis when the obligation occurs and as a result of the development of mines or installation of those facilities. The restoration and rehabilitation provision represents the present value of estimated restoration and rehabilitation costs relating to current mine sites, which are expected to be incurred up to the end of the life of the mine. The Company accounts for provisions for its operating assets Mupane and Galaxy.

The Mupane provision has been created based on an independent report on the future rehabilitation costs as at December 31, 2013. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. Management used a pre-tax nominal discount rate of 10.0% in preparing the Company's provision. The undiscounted inflation adjusted liability for the restoration and rehabilitation provision as at December 31, 2015 is \$3,027,571 (BWP 33,918,180) (2014 - \$3,303,403 or BWP 31,551,795).

The Galaxy provision has been created based on an independent report on the future rehabilitation costs as at October 13, 2014. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. Management used a pre-tax nominal discount rate of 9.25% in preparing the Company's provision. The undiscounted inflation adjusted liability for the restoration and rehabilitation provision as at December 31, 2015 is \$2,504,541 (ZAR 38,893,771) (2014 - nil).

These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommissioning works required, which will reflect market conditions at the relevant time. It will also depend on the methods employed and related laws in force at the time of rehabilitation. Furthermore, the timing of rehabilitation is likely to depend on when the mine ceases to produce at economically viable rates. This, in turn, will depend upon future gold prices, which are inherently uncertain, and identification of future mineral reserves and resources.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

12. Accounts payable and accrued liabilities:

	December 31, 2015	December 31, 2014
Trade accounts payable	\$ 7,058,739	\$ 5,099,177
Accrued liabilities	1,480,046	1,536,657
	\$ 8,538,785	\$ 6,635,834

Trade payables and accrued liabilities are non-interest bearing and are normally settled on 60-day terms after the date of receipt of the invoice. Within trade payables there is \$2,875,797 of Galaxy trade payables acquired which are currently being discussed directly with suppliers to agree revised payment terms.

13. Interest-bearing loans and borrowings:

	December 31, 2015	December 31, 2014
Current:		
Mining Royalties ⁽²⁾	\$ -	\$ 1,773,360
Secured Facility Mupane ⁽³⁾	1,033,808	2,770,000
Secured Facility Galaxy ⁽⁴⁾	3,249,433	-
Shareholder Loans Galaxy ⁽⁵⁾	1,306,914	-
Capital lease obligation ⁽⁶⁾	119,450	124,056
	\$ 5,709,605	\$ 4,667,416
Non-Current:		
Debentures ⁽¹⁾	\$ 1,720,518	\$ -
Mining Royalties ⁽²⁾	4,188,464	1,773,361
Secured Facility Mupane ⁽³⁾	1,990,000	2,230,000
Capital lease obligation ⁽⁶⁾	296,584	16,857
	\$ 8,195,566	\$ 4,020,218

⁽¹⁾ The Company issued unsecured debentures to certain Galaxy loan holders as settlement of amounts previously due for Galaxy. The terms of the debentures are as follows:

- Initial principal amount - \$1,718,447
- Principal repayment - on November 20, 2019.
- Interest rate - fixed rate of 4% per annum, compounded annually and payable on the principle repayment date.
- Convertible at the option of the holder into common shares at a price of Cdn.\$1.00 per share, based on a pre-determined exchange rate of \$1.00:Cdn.\$1.30. The interest is convertible into common shares, based on a pre-determined exchange rate of \$1.00:Cdn.\$1.30, at a price equivalent to the greater of Cdn.\$1.00 and the Discounted Market Price (as defined by the TSX Venture Exchange) at the time of conversion, subject to acceptance of the TSX Venture Exchange. The conversion price of the principal and interest and the resulting number of common shares issuable upon conversion of the debentures are subject to standard anti-dilution adjustment provisions.

⁽²⁾ The Government of Botswana has agreed to the deferral of royalties payable on the sale of gold under the following terms:

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

13. Interest-bearing loans and borrowings (continued):

- Royalties due to June 2016 have been deferred until July 2017
- Repayment of royalties due to June 2016 to commence in July 2017 over 12 months
- Interest to be charged from July 1, 2017 at Bank of Botswana commercial bank prime lending rate plus 5%

The deferral amount is unsecured.

- (3) The Company entered into a loan facility and gold prepayment agreement with Samsung C&T UK Ltd dated as of August 22, 2014. On November 5, 2015 the Company agreed with Samsung new terms with regards to the loan facility and gold prepayment agreement. The Samsung facility has been amended on the following terms as of October 1, 2015:
- the current schedule of 10 remaining monthly instalments of \$277,000 and one monthly instalment of \$291,000 has been amended to a repayment of 12 instalments of \$20,000 per month effective from October 2015, followed by 9 instalments of \$277,000 and a final instalment of \$328,000 in July 2017;
 - in each month during the repayment period, Mupane must deliver at least 1,607 ounces of gold at a price for the gold selected by Samsung from any one of the four London Bulletin AM or PM dollar gold fixing prices falling either on the delivery date or on the day immediately following the Delivery Date, less a discount of 1.25%;
 - in each month following the repayment period and for such period as gold dore is produced Samsung will have the right to request delivery of all gold dore produced from the Tau ore body and the low grade stockpiles. In each case the price for the gold produced can be selected by Samsung from any one of the four London Bulletin AM or PM dollar gold fixing prices falling either on the delivery date or on the day immediately following the delivery date, less a discount of 2%;
 - in each month following the repayment period Samsung has been provided with the right of first refusal to purchase all gold produced from the Company's operations in Botswana on terms that are no more favourable than offered by a third party;
 - the rate of interest on the outstanding balance is 3% per annum, compounded annually; and
 - the facility is secured by a first charge against the assets of Mupane.
- (4) On the acquisition of Galaxy the Company fair valued a secured facility with Mine2Market SARL at \$3,249,433 which represents the settlement amount agreed between the parties subsequent to the year end (Note 20 – Subsequent events). The amount as at December 31, 2015 was repayable on demand.
- (5) There are numerous shareholder loan agreements with Galaxy denominated in South African Rand. The terms of the agreements are:
- the rate of interest is between 15% per annum and South African prime rate plus 6% calculated and compounded monthly; and
 - the amounts outstanding are repayable on demand.
- (6) The Company acquired one light vehicle in 2014 for use at the mine for total cost of \$27,000 and financed the purchase through capital lease obligations. The capital leases are for a term of 36 months, with average monthly payments of \$870 per month principal and interest and a final payment of \$11,889, with the final payment in June 2017. In addition, the Company acquired a Komatsu Dozer in March 2015 and financed \$535,000 of the acquisition costs. The lease term is 48 months with monthly payments of approximately \$13,500 per month principal and interest

Contractual Repayment Schedule

	2016	2017	2018	2019	Total
	\$	\$	\$	\$	\$
Mining Royalties	-	2,130,000	2,058,464	-	4,188,464
Secured Facility Mupane	1,033,808	1,990,000	-	-	3,023,808
Secured Facility Galaxy	3,249,433	-	-	-	3,249,433
Shareholder Loans Galaxy	1,306,914	-	-	-	1,306,914
Capital lease obligation	119,450	148,292	148,292	-	416,034
Debentures	-	-	-	1,720,518	1,720,518
Total	5,709,605	4,268,292	2,206,756	1,720,518	13,905,171

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

14. Income taxes:

A reconciliation between tax expense and the product of accounting income multiplied by the combined federal and Ontario tax rate of 26.50% (2013 - 26.50%) is as follows:

	2015	2014
Accounting income (loss) before income tax	\$ (8,513,499)	\$ 1,876,608
Statutory income tax rate	26.5%	26.5%
Expected income tax (recovery) expense	\$ (2,256,077)	\$ 497,301
(Non-taxable)/non-deductible items	106,213	(55,133)
Differences in foreign and statutory income tax rates	317,673	(201,130)
Change in unrecognised deferred tax assets	1,832,191	(241,038)
Net deferred tax asset derecognized	-	-
Other	-	-
Income tax expense/(recovery) reported in the consolidated statement of earnings and comprehensive earnings	\$ -	\$ -

Deferred tax assets have not been recognised in respect of the following temporary differences, because it is not probable that future tax profits will be available against which the Company can use the benefits therefrom:

	2015	2014
Unused tax losses	\$ 41,881,081	\$ 39,529,003
Restoration and Rehabilitation provisions	3,656,728	3,083,252
Plant and equipment	1,026,254	2,202,138
Mining royalties payable	4,188,464	3,546,722
Un-deducted share issuance costs	167,021	519,676
	\$ 50,919,548	\$ 48,880,791

The unused tax losses by jurisdiction are as follows:

	2015	2014
Botswana	\$ 34,038,218	\$ 32,811,887
Canada	7,842,863	6,717,116
	\$ 41,881,081	\$ 39,529,003

The Botswana tax losses are classified as an operating loss and can be carried forward indefinitely. The Canadian losses are non-capital losses and expire over the years 2026 to 2034.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

14. Income taxes (continued):

At December 31, 2015, there was a nil taxable temporary difference (2014 - \$2,725,000) on investments in subsidiaries. A deferred tax liability was not recognized on this outside basis difference as the Company can control the reversal of the related taxable temporary difference and management is satisfied that it will not reverse in the foreseeable future.

15. Share Capital

(a) Authorized share capital:

As at December 31, 2015, the authorized share capital of the Company consisted of an unlimited number of common shares. All issued shares are fully paid.

(b) Issued share capital:

During the year ended December 31, 2015, the Company had the following share transactions:

On August 17, 2015, 16,832 common shares were issued as deferred matching shares under the Company's share purchase plan ("SPP"). Under the terms of the SPP, each participating officer, director or employee is entitled to receive a matching number of common shares acquired pursuant to the SPP at no cost to such officer, director or employee (the "Deferred Matching Shares"). Subject to certain conditions, such Deferred Matching Shares will be issued to the participating officers and directors over a three year period following the date of the purchase of the Qualifying Shares.

On November 20, 2015 and December 23, 2015, 18,334,492 common shares were issued as part of the Galaxy Acquisition to the former shareholders of Galaxy (Note 5).

On December 15, 2015, 142,828 common shares were issued as deferred matching shares under the SPP.

During the year ended December 31, 2014, the Company had the following share transactions:

On April 8, 2014, the Company issued an aggregate of 1,375,000 common shares to the former shareholders of the Northern Lights Exploration Company (Pty) Ltd. ("NLE") (Note 15(e)).

On June 15, 2014, the Company issued 16,836 common shares as Deferred Matching Shares under the SPP.

On December 15, 2014, the Company issued 142,832 common shares as Deferred Matching Shares under the SPP.

(c) Stock options:

The Company has a stock option plan whereby options may be granted to directors, officers, employees and consultants. As at December 31, 2015, a maximum of 7,131,444 options to purchase common shares were issuable under the Company's stock option plan, of which 3,876,444 remained available for issuance. Under the Company's stock option plan, the Company may grant options for up to 10% of the issued and outstanding common shares to directors, officers, employees and consultants. Under the plan, the exercise price and vesting is at the discretion of the Board, can be granted for a maximum term of ten years, with certain restrictions as to limits on amounts granted to insiders, consultants or person engaged in investor relations activities.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

15. Share Capital (continued)

(c) Stock options (continued):

The following is a summary of stock options outstanding as at December 31, 2015 and December 31, 2014 along with changes during the periods then ended:

	Number of Options	Weighted Average Exercise Price (CDN\$)
Outstanding December 31, 2013	4,035,000	\$ 0.64
Options expired	(1,080,000)	0.78
Options issued June 17, 2014, expiring June 17, 2016	300,000	0.21
Balance, December 31, 2014 and 2015 ⁽¹⁾⁽²⁾	3,255,000	\$ 0.54

(1). The weighted average time to expiration for outstanding options is 2 years.

(2). The range of exercise price are:

- a. 1,300,000 options Cdn.\$0.12 to 0.21
- b. 1,955,000 options Cdn.\$0.80 to 0.88

All the options are exercisable as at December 31, 2015 (2014 – 2,771,667).

The Company recognizes share-based compensation expense for all stock options granted using the fair value on grant date as calculated by using the Black Scholes Model. The Company used the following weighted average assumptions for the Model in 2014:

- Risk free discount rate	1.02%
- Expected volatility (using historic volatility of comparable companies as a basis)	80%
- Expected life	2.5 years
- Dividend rate	nil

The total compensation cost for the 300,000 options granted on June 17, 2014 was calculated as \$27,629 which was recognised in general and administrative expenses.

A share-based compensation amount of \$21,959 has been recognized in general and administrative expenses for stock options in the year ended December 31, 2015 (2014 - \$93,432).

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

15. Share Capital (continued)

(d) Warrants:

The following is a summary of warrants outstanding as at December 31, 2015 and December 31, 2014 and changes during the years then ended:

	Number of Warrants	Weighted Average Exercise Price (CDN\$)
Balance, December 31, 2013 and 2014	-	-
Warrants issued November 20, 2015 (Note 5) ⁽¹⁾	4,076,598	0.04
Balance, December 31, 2015	4,076,598	0.04

⁽¹⁾ Using the Black Scholes Model for estimating fair market value, the warrants issued on the Galaxy Acquisition were valued at \$113,349 on issuance. The assumptions used in the Black Scholes Model are:

- Risk free discount rate	0.61%
- Expected volatility (using historic volatility of comparable companies as a basis)	143%
- Expected life at December 31, 2015	3 years and 11 months

(e) NLE Shares:

The Company entered into an agreement (the “NLE Agreement”) on July 27, 2011 to acquire all of the issued and outstanding shares of NLE.

The NLE Agreement provides for the issuance of up to an additional 8,750,000 common shares upon the achievement of exploration milestones on the NLE mineral properties within seven years from the date of the closing of the NLE Acquisition. On April 8, 2014, the Company issued an aggregate of 1,375,000 common shares as a result of the achievement of the first milestone. As a result, the Company provided for a share based compensation amount of \$157,986 (1,375,000 common shares at a price of CDN\$0.12 per share) which was recognized as an addition to fixed assets.

(f) Deferred Share Units:

The Company has established a deferred share unit plan whereby deferred share units (“DSUs”) may be granted to directors, officers, employees and consultants. As at December 31, 2015, a maximum of 5,266,062 DSUs were issuable under the Company’s deferred share unit plan, of which 1,427,018 remained available for issuance (2014 – maximum 5,266,062 of which 1,217,018 remained available). Included in stock based compensation was \$311,884 in relation to the DSUs (2014 – \$207,361). The total value of the DSUs still to be expensed at December 31, 2015 is \$194,438 (December 31, 2014 – \$539,893).

On issuance of the DSUs the fair value is calculated as the quoted share price on date of grant times the number of DSUs issued. The compensation expense is then recognized over the vesting period of the DSUs. The Board at its discretion can determine the vesting schedule applicable to an award of DSUs at the time of award.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

15. Share Capital (continued)

(g) Earnings (loss) per share:

The calculations of earnings (loss) per share is based on the following data:

	December 31, 2015	December 31, 2014
Earnings (loss) attributable to Galane Shareholders	\$ (8,692,968)	\$ 1,876,608
Weighted average number of common shares outstanding for purposes of basic earnings per share	54,895,219	52,306,884
Dilutive deferred share units	-	1,964,280
Dilutive options	-	313,604
Weighted average number of common shares outstanding for the purpose of diluted earnings per share	54,895,219	54,584,768
Earnings (loss) per share		
Basic	\$ (0.16)	\$ 0.04
Diluted	\$ (0.16)	\$ 0.03

In the year ended December 31, 2015, 3,255,000 stock options, 4,076,599 warrants, 3,629,044 deferred share units and 120,000 deferred matching shares were excluded from the calculation of earnings per share as they were anti-dilutive. In the year ended December 31, 2014, 2,116,918 stock options were excluded but may be dilutive in the future.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

16. Breakdown of earnings and comprehensive earnings items:

The following is a breakdown of certain items in the consolidated statement of earnings (loss) and comprehensive earnings (loss):

(a) Mining costs

		2015	2014
Mining and production	\$	23,922,898	27,131,552
Administrative		3,774,568	4,800,488
Total costs	\$	27,697,466	31,932,040
De-recognition of stripping costs (Note 9)		3,893,479	-
Depreciation and amortization		2,857,197	4,043,481
	\$	34,448,142	35,975,521

Included in mining and production are employee and benefit costs of \$3,479,653 and in administrative \$2,233,201 (2014 - \$4,358,595 and \$2,511,519 respectively)

(b) Corporate general and administration

		2015		2014
Professional fees	\$	291,607	\$	645,502
Corporate administration		1,600,744		1,518,796
Share-based compensation		370,890		346,630
	\$	2,263,241	\$	2,510,928

Included in corporate administration are employee and benefit costs of \$1,510,137 (2014 - \$1,367,601)

(c) Financing costs

		2015		2014
Interest on long term debt	\$	370,328	\$	174,809
(Decrease) / Increase in value of warrants denominated in foreign currency		-		-
Accretion on restoration and rehabilitation provision		322,857		(34,434)
	\$	693,185	\$	140,375

(d) Other expenses

		2015		2014
Other expenses	\$	(32,376)	\$	(128,393)
Loss (Gain) on disposal of equipment		11,159		432,103
Staff retrenchment costs		266,872		258,750
	\$	245,655	\$	562,460

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

17. Commitments and Contingencies

(a) Royalty expenses

Production from the Mupane operation is subject to third party royalties (included in mining costs) of 5% of revenues based on market prices at the date of shipment. For the year to December 31, 2015, the Company expensed \$1,397,381 in royalties (2014 - \$2,016,395).

(b) Operating contractual obligations

The Company has operating lease obligations which relate to obligations for land operating lease agreements as follows:

• To be incurred in 2016	\$310,060
• To be incurred in 2017	\$259,069
• To be incurred 2018-2019	\$882,698

(c) Claims

The Company is also subject to the possibility of revised tax assessments for some years. The Company does not believe that, should unfavourable decisions arise from any review of its tax filings, that any amount it might be required to pay will be material. No amounts have been provided for in the Financial Statements.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

18. Related party transactions

During the year ended December 31, 2015 and 2014, the following related party transactions occurred:

- Charles Byron, a director of the Company:
 - In 2014 Mr Byron was issued 660,000 common shares that were payable pursuant to the NLE acquisition (Note 15 (e));
 - The Company paid rent of \$10,968 for office premises to Great African Services (Pty) Ltd., a company owned by a consortium of individuals that includes Charles Byron (2014 - \$10,968);
- IAMGOLD, a shareholder with significant influence, by holding in excess of 20% of the common shares of the Company:
 - During the year ended December 31, 2014 the Company paid to IAMGOLD \$2,533,333 in cash representing the final payment on its interest bearing note; and
 - the Company paid \$191,978 to IAMGOLD representing the final interest payable on its interest bearing note.
- Wayne Hatton-Jones, the Chief Operating Officer of the Company and the General Manager of Mupane
 - Mr. Hatton-Jones was a shareholder of Galaxy at the time of the Galaxy Acquisition. In connection with the Galaxy Acquisition, Mr. Hatton-Jones received 1,229,515 Common Shares and 273,378 Warrants.

The remuneration of directors and other members of key management personnel during the year ended December 31, 2015 is as follows:

	Year ended December 31, 2015	Year ended December 31, 2014
Salaries	\$ 1,639,631	1,415,205
Management fees ⁽¹⁾	120,000	100,000
Directors fees	44,361	103,326
Share-based compensation ⁽²⁾	209,145	256,903
	\$ 2,013,137	1,875,434

(1) Management fees represent compensation paid to officers of the Company pursuant to contracts for services.

(2) Share-based compensation is the fair value of options, deferred matching shares and DSUs granted to key management personnel.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

19. Segmented information

The Company operates in one reportable segment, being the exploration, development and operation of gold mining properties. All of the Company's equipment and mining assets are located in the Republic of Botswana and the Republic of South Africa. In the year ended December 31, 2015 and 2014 all revenues of the Company were earned in the Republic of Botswana. A breakdown of the total assets by geographic segment is as follows:

	Canada	South Africa	Botswana	Total
Cash	\$ 67,763	\$ 66,411	\$ 1,753,005	\$ 1,887,179
All other assets	11,912	12,637,327	33,744,419	46,393,658
Balance, December 31, 2015	\$ 79,675	\$ 12,703,738	\$35,497,424	\$ 48,280,837

	Canada	South Africa	Botswana	Total
Cash	\$ 83,560	\$ -	\$ 9,570,247	\$ 9,653,807
All other assets	75,453	-	37,491,065	37,566,518
Balance, December 31, 2014	\$ 159,013	\$ -	\$47,061,312	\$ 47,220,325

20. Subsequent Events

Traxys settlement

On March 29, 2016, the Company and its subsidiary, Galaxy, entered into a full and final settlement agreement with Traxys Europe SA, Mine2Market S. à r.l. and certain others (collectively the "Traxys parties") with respect to various outstanding claims arising from the time period when the Traxys parties operated Galaxy's mining operations.

In connection with the settlement, the Traxys parties settled their claim for \$4.3 million of indebtedness in exchange for the issuance by the Company of \$3.2 million aggregate principal amount of unsecured convertible debentures (the "Traxys Debentures"). The Traxys Debentures mature on November 20, 2019 and bear interest at 4% per annum accrued and paid at maturity. The principal is convertible at the option of the holder into Common Shares at a price of Cdn.\$1.00 per share, based on a pre-determined exchange rate of \$1.00:Cdn.\$1.35. The interest is convertible into Common Shares, based on a pre-determined exchange rate of \$1.00:Cdn.\$1.35, at a price equivalent to the greater of Cdn.\$1.00 and the Discounted Market Price (as defined by the TSX Venture Exchange) at the time of conversion, subject to acceptance of the TSX Venture Exchange. The conversion price of the principal and interest and the resulting number of Common Shares issuable upon conversion of the Traxys Debentures are subject to standard anti-dilution adjustment provisions and therefore, upon the completion of the Rights Offering, the conversion price will be adjusted downward and the number of Common Shares issuable on conversion will be adjusted upward.

GALANE GOLD LTD.

Notes to Consolidated Financial Statements

In (U.S. dollars)

Years ended December 31, 2015 and December 31, 2014

20. Subsequent Events (Continued)

Rights Offering

On March 30, 2016, the Company announced that it filed a rights offering notice (the "Notice") and rights offer circular (the "Circular") on www.sedar.com for an offering (the "Rights Offering") to the eligible holders of its common shares of record at close of business on April 8, 2016 (the "Record Date"). The rights issued under the Rights Offering (the "Rights") will expire on May 6, 2016 (the "Expiry Date"). A fully subscribed Rights Offering is expected to generate gross proceeds of approximately Cdn.\$713,000.

Each eligible registered shareholder of common shares on the Record Date will receive one (1) Right for each common share held by such shareholder. One (1) Right plus the sum of Cdn.\$0.01 will entitle the Rights holder to subscribe for one common share. The Rights are not listed for trading.

Debenture

On January 4, 2016, the Company issued an unsecured debenture to a Galaxy loan holder for an initial principal amount of \$682,388 to settle current debt outstanding at Galaxy as at December 31, 2015. The terms of the debenture are as follows:

- Principal repayment on November 20, 2019.
- Interest rate - fixed rate of 4% per annum, compounded annually and payable on the principle repayment date.

Transactions with Related Parties

Capit Investment Corp. ("Capit") acquired 7,613,000 Common Shares from IAMGOLD Corporation on March 17, 2016, bringing Capit's beneficial ownership of Common Shares to 8,403,748, representing 11.78% of the issued and outstanding Common Shares on a non-diluted basis. Capit is currently owned or controlled by Amar Bhalla, a director of the Company.